000717

PRN:		Course Code:	U28PC301

Second Year **BBA** Semester End Examination Winter 2024

Financial Management

Day and Date: Fri 22 Nov 2024 Max Marks: **50**

Time: 10:30AM To 12:30PM Duration: **2** hrs.

Instructions:
i. All questions are compulsory.
ii. Figures to the right indicate full marks.

Q.1 **Attempt the following**

	Marks	Bloom's Level	CLO
Reliance Industries Ltd. has an existing equity capital of ₹50,00,000 (face value ₹100 per share). The company is planning an expansion project that requires ₹10,00,000 in additional funding. It has the following four financing options: 1. Plan 1: Raise ₹10,00,000 entirely through equity financing. 2. Plan 2: Raise ₹5,00,000 through equity and ₹5,00,000 through debt at an interest rate of 8% p.a. 3. Plan 3: Raise ₹10,00,000 entirely through debt at an interest rate of 8% p.a. 4. Plan 4: Raise ₹5,00,000 through equity and ₹5,00,000 through 6% preference shares. The expected EBIT (Earnings Before Interest and Taxes) for the company is ₹12,00,000, and the corporate tax rate is 25%. Reliance Industries Ltd. aims to maximize its Earnings Per Share (EPS). Tasks: 1. Calculate the EPS for each of the four financing plans. 2. Identify which plan will provide the highest EPS.	10	L4	CL03

Q.2 **Attempt the following.**

a) Define capital budgeting and explain its primary purpose in financial management. — 05 — L2 — CL02

b) XYZ Electronics is a company that sells home appliances. They want to forecast future demand for one of their popular products, the "Smart Refrigerator," using the Exponential Smoothing Method. The demand data for the past 6 months is as follows: — 05 — L4 — CL02

Month	Actual Demand (units)
Jan	1200
Feb	1300
Mar	1250
Apr	1400
May	1350
Jun	1450

The company's forecast for January was 1100 units. They want to use an exponential smoothing constant ($\alpha = 0.2$) to forecast demand for the next months. Forecast the demand for the months

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of **February to July** using the Exponential Smoothing Method.

OR

c) Describe the steps involved in the financial planning process and explain how each step contributes to achieving financial goals. 05 L2 CL02

Q.3 Attempt the following.

a) List and describe various sources of debt financing, including loans, bonds, and debentures. 05 L2 CL03

b) A company has a beta of 1.2, indicating its level of risk relative to the market. The current risk-free rate is 3%, and the expected return on the market is initially set at 7%. Due to changes in market conditions, the expected return on the market increases to 9%. Calculate the Cost of Equity for the company before and after the change in market conditions using the Capital Asset Pricing Model (CAPM). 05 L4 CL03

OR

c) A company has the following financial details: 05 CL03

- The company has a loan of Rs. 500,000 with an interest rate of 6%. The corporate tax rate is 25%.
- The company has a beta of 1.5. The risk-free rate is 3%, and the expected return on the market is 10%.
- The company's capital structure consists of 50% debt and 50% equity.

Question

1. Calculate the After-tax Cost of Debt.
2. Determine the Cost of Equity using the CAPM model.
3. Compute the Weighted Average Cost of Capital (WACC).

Q.4 Attempt the following.

a) What are the three main financial statements, and what is the primary purpose of each? 05 L1 CL04

b) ABC Ltd. has the following financial information for the year ended December 31, 2023: 05 L4 CL04

Category	Amount (₹)
Current Assets	600000
Current Liabilities	300000
Total Assets	1200000
Total Liabilities	700000
Net Income	200000
Sales Revenue	1000000
Cost of Goods Sold (COGS)	600000
Inventory	250000
Accounts Receivable	150000
Total Equity	500000

Calculate the following ratios:

i. Current Ratio
ii. Quick Ratio
iii. Debt to Equity Ratio
iv. Gross Profit Margin
v. Net Profit Margin

OR

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	b)	Why is Ratio Analysis Important for Financial Analysis?	05	L4	CL04
Q.5		**Write short notes Any Two.**	10		
	a)	Economic Order Quantity (EOQ) inventory management model (including its components and the formula)		L2	CL05
	b)	Cash Conversion Cycle		L2	CL05
	c)	Features of Trade Credit		L2	CL05

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